

# Partnership Income Tax Return

## General Instructions

For assistance, please contact one of the Taxpayer Information and Assistance numbers:

Phoenix .....(602) 255-3381  
Tucson .....(520) 628-6421  
Other Arizona areas .....1-800-352-4090  
Form Orders .....(602) 542-4260  
Forms by FAX .....(602) 542-3756  
Recorded Tax Information  
Phoenix .....(602) 542-1991  
Other Arizona areas .....1-800-845-8192  
Hearing impaired TDD user  
Phoenix .....(602) 542-4021  
Other Arizona areas .....1-800-397-0256

## Who Must Use Form 165

File Arizona Form 165 for every domestic partnership including syndicates, groups, pools, joint ventures, and every foreign partnership (syndicate, pool, etc.) doing business in Arizona.

## Limited Liability Companies

Under the provisions of the Arizona Limited Liability Company Act, limited liability companies may be classified as partnerships or as associations taxable as corporations. A limited liability company classified as a partnership for federal tax purposes must file Arizona Form 165. A limited liability company classified as an association taxable as a corporation for federal tax purposes must file Arizona Form 120.

## Taxable Year Covered by Return

The partnership must have the same taxable year for Arizona purposes as it has for federal purposes. Fiscal year basis taxpayers must indicate the period covered by the taxable year on page 1 of the return. All taxpayers must indicate whether the taxable year is a calendar year or a fiscal year.

## Filing Original Returns

Returns are due by the 15th day of the fourth month following the close of the taxable year (April 15, in the case of a

calendar year return). If the partnership has a valid federal or Arizona extension, file the return by the extended due date. Attach a copy of the completed federal Form 1065 and supporting schedules to the Arizona return. File the return with the Department of Revenue, P O Box 29079, Phoenix AZ 85038-9079.

The department normally determines the timeliness of a return by the postmark or other official mark of the U.S. Postal Service stamped on the cover in which the return is mailed. Refer to Arizona General Tax Ruling GTR 93-1 for further information. Call one of the Taxpayer Information and Assistance numbers listed on this page of the instructions to obtain a copy of the tax ruling.

## Extension of Time To File a Return

The partnership can apply for an Arizona extension by filing a completed Arizona Form 120EXT by the original due date of the return. The partnership can substitute a valid federal extension for an Arizona extension. Attach a copy of the federal or Arizona extension to the front of the Arizona partnership return. Composite return filers must use Arizona Form 204 to file for an extension.

**IMPORTANT:** *Using a full six-month extension of time to file Arizona Form 165 may force partners into noncompliance. Arizona law provides that six months is the maximum extension of time to file that the department may grant the partners to file their returns.*

## Filing Amended Returns

File amended returns within four years of the filing of the original return. Attach a statement to the amended return that explains why the partnership amended its Arizona return. If the partnership amended its federal return, attach a copy of the amended federal return with applicable schedules to the amended Arizona return.

**NOTE:** *File amended returns for prior taxable years on the Arizona Forms 165 for those taxable years. Use the 1995 Form 165 to amend only the 1995 taxable year.*

## Who Must Sign the Return

One of the partners must sign the return. If receivers, trustees in bankruptcy, or assignees are in control of the property or business of the organization, such receivers, trustees, or assignees must sign the return.

When someone other than a member or employee of the partnership prepares the return, that person must also sign the return.

## Penalties

A partnership information return that is incomplete or filed after its due date (including extensions) is subject to a \$500 penalty.

## IRC § 7519 - Required Payments

The Department of Revenue will not require partnerships to make required payments. The department will not allow the affected taxpayers to deduct the federal required payments on their Arizona tax returns as an ordinary and necessary business expense or otherwise.

## Line-by-Line Instructions

Type or print the required information on the name and address lines. Fill in all identification numbers in the spaces provided. The Arizona withholding identification number is the number given Arizona employers for withholding tax purposes. Indicate whether this return is an original or an amended return.

All returns, statements and other documents filed with the Department of Revenue require a taxpayer identification number (TIN). The TIN is either a correct social security number or, for a business, the federal employer identification number. Paid tax preparers must also include their TIN on forms

where requested. Taxpayers and paid preparers failing to include the proper TIN may be subject to a penalty. Please check the return to be sure that all required identification numbers are accurate and written clearly. Missing, incorrect, or unclear identification numbers may cause delays in processing the returns.

## Information

Answer all questions A through K. Report any adjustments made by the Internal Revenue Service to any federal income tax return filed by the partnership not previously reported to the department. Please submit these adjustments under separate cover to Arizona Department of Revenue, Corporate Audit Section, 1600 West Monroe, Phoenix AZ 85007.

## Adjustment of Partnership Income to Arizona Basis

### Line 1 - Federal Ordinary Business and Rental Income

Enter the total of the federal business and rental income items from federal Form 1065, Schedule K. Attach a copy of the federal Form 1065 and its component schedules.

### Line 2 - Additions to Income

Enter amount from page 2, Schedule A, line A3.

### Line 4 - Subtractions From Income

Enter amount from page 2, Schedule B, line B6.

### Line 5 - Partnership Income Adjusted to Arizona Basis

Subtract line 4 from line 3. This is the partnership income adjusted to an Arizona basis.

### Line 6 - Net Adjustment From Federal to Arizona Basis

Subtract line 5 from line 1.

### Line 7 - Penalty

This form is an information return. An information return that is incomplete or filed after its due date (including extensions) is subject to a \$500 penalty.

If the partnership files this return after its due date (including extensions), enter \$500 on this line. Attach a check for that amount to the return. Make the check payable to the Arizona Department of Revenue. Include the partnership's TIN on the check.

## Business Information (Page 2)

Complete this schedule if the partnership is doing business within and without Arizona. Enter the exact location of each place where the partnership carries on business. Describe each place (i.e., branch office, agency, factory, etc.). State whether it is rented or owned by the partnership. State the principal product or service that accounts for the largest percentage of "total receipts." "Total receipts" means gross receipts plus all other sources of ordinary income. Examples of principal products or services: "Wholesale Food", "Retail Apparel", etc.

Attach a schedule if there are more than four locations.

## Schedule A

### Line A1 - Non-Arizona Municipal Bond Interest

Enter interest income received from any state or municipal obligations (other than Arizona) credited to or earned by the partnership during the taxable year. Do not include interest from obligations specifically exempt from Arizona income tax. Examples of such tax exempt obligations are Arizona municipal bonds or bonds of Arizona political subdivisions.

### Line A2 - Other Additions to Federal Distributive Income

Enter the following other additions to the federal distributive income. Attach a schedule listing each item separately.

### A. Excess of a Partner's Share of Partnership Taxable Income or Loss

Make this adjustment if the partnership is a partner of another partnership. Enter the excess of a partner's share of partnership taxable income included under ARS §§ 43-1401 through 43-1413 over the income reported under Internal Revenue Code § 702(a)(8). Enter the

excess of a partner's share of partnership losses determined according to Internal Revenue Code § 702(a)(8) over the losses allowable under ARS §§ 43-1401 through 43-1413.

### B. Income Recognized Because of Difference in Adjusted Basis of Property

Enter the amount by which the adjusted basis of property described in this paragraph, computed according to the Internal Revenue Code, exceeds the adjusted basis according to Arizona law. Basis computed according to Arizona law means according to Title 43 of the Arizona Revised Statutes effective January 1, 1979, and the Income Tax Act of 1954, as amended. This adjustment applies to all property held for the production of income sold or otherwise disposed of during the taxable year. This adjustment does not apply to depreciable property used in a trade or business.

### C. Federal Amortization of Pollution Control Devices and Federal Depreciation on Child Care Facilities

Arizona's statutes which allow special amortization for pollution control devices and for the cost of day care facilities are no longer applicable to partnerships. However, if the partnership elected to claim the special amortization under Arizona's former statutory provisions, the partnership must continue to amortize these items in accordance with these provisions. Therefore, the partnership must make the same additions to and subtractions from Arizona gross income that Arizona's former statutory provisions required the partnership to make. If the partnership is amortizing these items under Arizona's former provisions, enter the amount of amortization or the depreciation deducted for these items on the federal partnership return.

### D. Federal Amortization or Depreciation of Recycling Equipment

Enter the amount of depreciation or amortization of costs of recycling equipment deducted pursuant to the Internal Revenue Code. Make this adjustment if the partnership made an election to claim a tax credit pursuant to ARS § 43-1076 or § 43-1164.

**E. Federal Amortization of Capital Investment by a Qualified Defense Contractor**

Enter the amount of depreciation or amortization of costs of any capital investment deducted pursuant to § 167 or § 179 of the Internal Revenue Code by a qualified defense contractor. Make this adjustment if the partnership makes an election, pursuant to ARS § 43-1024, to amortize the cost of any new device, machinery, equipment or other capital investment. The partnership must use the device, machinery, equipment or other capital investment exclusively for private commercial activities in Arizona.

**F. Property Taxes Paid by a Qualified Defense Contractor**

Enter the amount paid as taxes on property located in Arizona included in the Arizona gross income of a qualified defense contractor. Make this adjustment if the partnership elected to claim a tax credit under ARS § 43-1078 or § 43-1166 for such taxes.

**G. Gain on Sale of a Capital Investment by a Qualified Defense Contractor**

Enter the amount of gain from the sale or other disposition of a capital investment which a qualified defense contractor has elected to amortize pursuant to ARS § 43-1024.

**H. Agricultural Water Conservation System Expenses**

Enter the amount of agricultural water conservation system expenses deducted pursuant to the Internal Revenue Code if the partnership elected to claim a tax credit under ARS § 43-1084 or § 43-1172.

**I. Excess Federal Depreciation or Amortization for a Qualified Environmental Technology Facility**

Enter the excess of depreciation or amortization computed on the federal basis of the facility over depreciation or amortization computed on the Arizona adjusted basis of the facility. Make this adjustment for the facility for which the partnership elected to claim a tax credit under ARS § 43-1080 or § 43-1169.

**J. Excess in Federal Adjusted Basis of a Qualified Environmental Technology Facility**

Enter the amount by which the federal adjusted basis of the facility exceeds the Arizona adjusted basis of the facility. Make this adjustment if the facility or any component of the facility for which the partnership elected to claim a tax credit under ARS § 43-1080 or § 43-1169 was sold or otherwise disposed of during the taxable year.

**K. Excess Federal Depreciation or Amortization for Pollution Control Property**

Enter the excess of depreciation or amortization computed on the federal basis of the pollution control property over depreciation or amortization computed on the Arizona adjusted basis of the property. Make this adjustment for the property for which the partnership elected to claim a tax credit under ARS § 43-1081 or § 43-1170.

**L. Excess in Federal Adjusted Basis of Pollution Control Property**

Enter the amount by which the federal adjusted basis of the pollution control property exceeds the Arizona adjusted basis of the property. Make this adjustment if the property for which the partnership elected to claim a tax credit under ARS § 43-1081 or § 43-1170 was sold or otherwise disposed of during the taxable year.

**M. Summer School and Jobs Program Wages**

Enter the amount of wages paid to students enrolled in the 1995 summer school and jobs program that is equal to the amount of the tax credit which the partnership elected to claim.

**Line A3 - Total Additions to Federal Distributive Income**

Add lines A1 and A2. Enter total on line A3 and on page 1, line 2.

**Schedule B****Line B1 - Interest From U.S. Government Obligations**

Enter the interest income received from U.S. obligations included on the federal

Form 1065, Schedule K, exempt from state income taxes under federal law.

**NOTE:** *Not all obligations associated with the federal government are obligations of the federal government. Government National Mortgage Association (GNMA) or Federal National Mortgage Association (FNMA) are not obligations of the U.S. government and, therefore, are taxable to Arizona.*

**Line B2 - Difference in Adjusted Basis of Property**

Enter the amount by which the adjusted basis of property described in this paragraph, computed according to Arizona law, exceeds the adjusted basis of such property computed according to the Internal Revenue Code. Basis computed according to Arizona law means according to Title 43 of the Arizona Revised Statutes, effective January 1, 1979, and the Income Tax Act of 1954, as amended. This adjustment applies to all property held for production of income sold or otherwise disposed of during the taxable year. This adjustment does not apply to depreciable property used in a trade or business.

**Line B3 - Agricultural Crops Contributed to Charitable Organizations**

Arizona law allows a subtraction for qualified crop contributions made during the taxable year to one or more Arizona tax exempt charitable organizations for use in Arizona. Refer to Income Tax Procedure ITP 93-2 for information on how to determine if the contribution qualifies for the subtraction. Call one of the Taxpayer Information and Assistance numbers listed on page one of the instructions to obtain a copy of the tax procedure.

**Line B4 - Alternative Fuel Vehicles and Equipment**

Arizona law allows a subtraction for the purchase of new alternative fuel vehicles and for the purchase of refueling equipment. Arizona law also allows a subtraction for the cost of converting conventional vehicles to operate on an alternative fuel. The subtraction applies to taxable years beginning from and after December 31, 1993. Complete Arizona

Form 313, Part I, to claim this subtraction. Enter the amount from Arizona Form 313, Part I, Line 28.

### **Line B5 - Other Subtractions From Federal Distributive Income**

Enter the following other subtractions from federal distributive income. Attach a schedule listing each item separately.

#### **A. Excess of Partner's Share of Partnership Income or Loss**

Make this adjustment if the partnership is a partner in another partnership. Enter the excess of the partner's share of the income included under Internal Revenue Code § 702(a)(8) over the income included under ARS §§ 43-1401 through 43-1413. Enter the excess of a partner's share of partnership losses, determined by ARS §§ 43-1401 through 43-1413, over the losses allowable under § 702(a)(8) of the Internal Revenue Code.

#### **B. Amortization of the Cost of Pollution Control Devices and Child Care Facilities**

Arizona's statutes which allow special amortization for pollution control devices and for the cost of day care facilities are no longer applicable to partnerships. However, if the partnership elected to claim the special amortization under Arizona's former statutory provisions, the partnership must continue to amortize these items in accordance with these provisions. Therefore, the partnership must make the same subtraction from Arizona gross income that Arizona's former statutory provisions required the partnership to make. Enter the required subtraction for amortization of these items on line B5 of the Arizona return.

#### **C. Mine Exploration Expenses**

Arizona no longer has special mine exploration expense provisions for partnerships. Arizona now conforms to the federal treatment of mine exploration expenses. However, if the partnership deferred exploration expenses under Arizona's former provisions, the partnership may subtract such deferred expenses. The partnership claims the subtraction on a ratable basis as the units of produced ores or minerals discovered or explored as a result of such

expenditures are sold. Enter the amount of such deferred exploration expenses on line B5 of the Arizona return.

#### **D. Interest on Federally Taxable Arizona Obligations**

Enter the amount of interest income received on obligations of the State of Arizona, or any of its political subdivisions, included on the federal Form 1065, Schedule K. Omit interest income received on obligations of the State of Arizona, or any of its political subdivisions, exempt from federal taxation and not included in the partnership's federal distributive income.

#### **E. Amortization of Capital Investment by a Qualified Defense Contractor**

Enter the amount allowed by ARS § 43-1024 for amortization by a qualified defense contractor of a capital investment for private commercial activities.

#### **F. Gain on Sale of Capital Investment by a Qualified Defense Contractor**

Enter the amount of gain included in Arizona gross income on the sale or other disposition of a capital investment. Make this adjustment if a qualified defense contractor elected to amortize the capital investment pursuant to ARS § 43-1024.

#### **G. Wood Stoves, Wood Fireplace or Gas-fired Fireplaces**

Enter the amount allowed by ARS § 43-1027 for the purchase and installation of a qualified wood stove, wood fireplace, or gas fired fireplace on property located in Arizona. Enter the amount allowed by ARS § 43-1027 for the cost of converting an existing wood fireplace to a qualified wood stove, wood fireplace or gas fired fireplace on property located in Arizona.

#### **H. Contributions to Individual Medical Savings Accounts**

Enter the amount of contributions made by the partnership during the taxable year to individual medical savings accounts established on behalf of the partnership's employees pursuant to, and subject to the limitations of, ARS § 43-1028. The subtraction is allowed for such contributions to the extent that the

contributions are not deductible by the partnership under the Internal Revenue Code.

### **Line B6 - Total Subtractions**

Add lines B1 through B5. Enter the total on line B6 and on page 1, line 4.

## **Schedule C - Apportionment Formula (For Use by Multistate Partnerships With One or More Nonresident Partners)**

The provisions of ARS §§ 43-1131 through 43-1150 govern the apportionment of income. A partnership that engages in activities both within and without Arizona apportions its business income. The basis of the apportionment is property, payroll, and sales in Arizona as compared with everywhere. "Everywhere" means the property, payroll and sales factors related to the whole unitary business.

When the partnership uses the apportionment method, complete Schedule C.

ARS § 43-1148 provides administrative relief if the allocation and apportionment provisions do not fairly represent the extent of the taxpayer's business activity in Arizona. The taxpayer may petition for, or the department may require, in respect to all or any part of the taxpayer's business activity, if reasonable:

1. Separate accounting.
2. The exclusion of any one or more of the factors.
3. The inclusion of one or more additional factors which will fairly represent the taxpayer's business activity in this state.
4. The employment of any other method to effectuate an equitable allocation and apportionment of the taxpayer's income.

This section permits a departure from the allocation and apportionment provisions only in limited and specific cases. ARS § 43-1148 may be invoked only in specific cases where unusual fact situations produce incongruous results under the apportionment and allocation provisions.

Taxpayers seeking relief should submit a letter to the Corporate Income Tax Audit Section 60 days prior to the filing of the return setting forth the relief that is requested and the justification for the relief.

The department normally makes such determinations only upon audit of the taxpayer. Such a detailed examination of the specific facts and circumstances reveals whether such unusual fact situations and incongruous results exist.

**NOTE:** ARS § 43-1139 (Allocation of business income) provides that the apportionment ratio is a fraction. The numerator of the fraction is the property factor plus the payroll factor plus two times the sales factor. The denominator of the fraction is four.

### Line C1 - Property Factor

The value of tangible personal property and real property owned by the partnership is its original cost. The partnership normally determines the average value of its owned property by averaging the values at the beginning and ending of the tax period.

The value of tangible personal property and real property rented by the partnership is eight times its net annual rental rate. The net annual rental rate is the annual rental rate paid by the partnership for the rented property less the aggregate annual subrental rates paid by subtenants of the partnership. The partnership automatically achieves averaging for rented property by the method of determining the net annual rental rate of such property.

Report real property situated in and tangible personal property permanently located in Arizona, as property within Arizona, if connected with the business activity. Allocate the value of mobile property to Arizona on the basis of the total time the property was within Arizona.

### Line C2 - Payroll Factor

Report salaries, wages, or other compensation of officers, employees, etc., as within Arizona if performance of the services occurs here. This rule applies regardless of where payment is made or control exercised. This rule also applies regardless of whether the performance of the services is partly or wholly in connection with the apportionable business carried on outside the state or in interstate or foreign commerce. Allocate the compensation of officers and employees who perform services partly within and partly without Arizona to this state when:

1. The services performed outside of Arizona are incidental to the employee's service within Arizona; or
2. The employee's base of operation is in Arizona; or
3. The employee has no base of operation in any state, but the direction or control of the employee is from Arizona; or
4. The employee has no base of operation in any state, and there is no direction or control from a state in which the employee performs some part of his services, but the employee's residence is in Arizona.

### Line C3 - Sales Factor

The term "sales" includes all gross receipts from transactions and activities in the course of the regular trade or business that produce income.

In general, determine sales within Arizona on a destination sales basis.

U.S. Government sales are Arizona sales if shipment of the property is from an office, store, warehouse, factory, or other storage place in Arizona. If the taxpayer is not taxable in the state of the purchaser, the Arizona sales include property shipped from an office, store, warehouse, factory, or other storage place in Arizona.

**NOTE:** Multiply the amount entered on line C3(e), column (a), of the Schedule C (the total Arizona sales) by 2 (double weighted sales factor) on line C3(f), column (a). Enter the amount on line C3(g), column (a). Do not double the amount entered on line C3(g), column (b), of the Schedule C (the everywhere sales of the taxpayer). **Example:** The partnership has total Arizona sales of \$100,000 and total everywhere sales of \$1,000,000. On line C3(g), column (a), enter \$200,000 of Arizona sales. On line C3(g), column (b), enter \$1,000,000 of everywhere sales for the partnership.

The sales factor ratio on line C3(g), column (c), may, in certain circumstances, exceed 100 percent. However, since the total ratio (line C4) is divided by four, the average ratio (line C5) will not exceed 100 percent.

### Line C5 - Average Ratio

Divide the total ratio, line C4, column (c), by four. Enter the average ratio here and on Arizona Form 165 Schedule K-1(NR), column 2. Express the ratio as a decimal carried out to six places.

**NOTE:** Do not exclude a factor from the total ratio if the numerator of a factor is zero and the denominator of a factor is greater than zero. However, the taxpayer must exclude a factor if both the numerator and the denominator of a factor are zero. If the property or payroll factor is excluded, determine the average ratio (line C5, column (c)) by dividing the total ratio by three. If the sales factor is excluded, determine the average ratio by dividing the total ratio by two.

## Schedule K-1 - Arizona Partner's Share of Income Adjustments

Complete three copies of Arizona Schedule K-1 for each partner. File one copy of each partner's Schedule K-1 with the partnership's Form 165. Provide all partners with a copy of their Schedule K-1. Retain a copy for the partnership's records.

## Schedule K-1(NR) - Nonresident Partner's Share of Income

Complete three copies of Arizona Schedule K-1(NR) for partners who are not Arizona residents. File one copy of each partner's Schedule K-1(NR) with the partnership's Arizona Form 165. Provide all partners with a copy of their Schedule K-1(NR). Retain a copy for the partnership's records.

## Schedule K-1(NR) - Instructions for the Partnership

**This schedule must be used for all corporate partners, nonresident individual partners, and nonresident fiduciary partners.**

Any partnership that has income from business activity that is taxable both within and without Arizona must allocate and apportion its net income. The partnership must allocate and apportion its net income according to the Uniform Division of Income for Tax Purposes Act (UDITPA), ARS §§ 43-1131 through 43-1150. A partnership that has income from business activity taxable in more than one state is a "multistate partnership." A partnership that has income from business activity taxable entirely within Arizona is a "wholly Arizona partnership."

### Column 1 - Distributive Share Amount

#### Wholly Arizona partnerships -

In column 1, enter the distributive share amount for each line item from the federal Form 1065, Schedule K-1. On line 15, enter the adjustment from federal to Arizona basis (from Form 165, page 1, line 6) multiplied by the partner's percentage of gain or loss.

**NOTE:** For corporate partners, complete only line 15 of the schedule.

#### Multistate partnerships -

Apportion all business income of a multistate partnership by the use of the apportionment formula. Nonbusiness income of a multistate partnership is nonapportionable and specifically allocable to a particular state.

"Business income" means income arising from transactions and activity in the regular course of the taxpayer's trade or business. Business income also includes income from tangible and intangible property if the acquisition, management, and disposition of the property constitute integral parts of the taxpayer's regular trade or business operations (ARS § 43-1131). "Nonbusiness income" means all income other than business income. (ARS § 43-1131)

In column 1, enter the partner's distributive share of the multistate partnership's income (or loss) that is subject to apportionment. The multistate partnership must compute the partner's distributive share of the partnership's income that is subject to apportionment. Make this computation by subtracting the partner's distributive share of the multistate partnership's nonbusiness income from the partner's total distributive share amount of the partnership's income. To compute the amount of such income that is subject to apportionment, the multistate partnership must attach a schedule that details (for each line item):

1. The partner's distributive share amount from the federal Form 1065, Schedule K-1, or from the adjustment from federal to Arizona basis (Form 165, page 1, line 6).
2. The partner's distributive share amount of the partnership's nonapportionable or allocable income.
3. The partner's distributive share of the partnership's income that is subject to apportionment. Refer to ARS §§ 43-1134 through 43-1138 for the methods of allocating certain types of nonbusiness income.

**NOTE:** For corporate partners, apply this computation only for the amount to be entered on line 15. Do not complete any other lines on the schedule for a corporate partner.

### Column 2 - Arizona Apportionment Ratio

**Wholly Arizona partnerships -** Enter 100 percent. **Multistate partnerships -** Enter the average ratio amount from Arizona Form 165, Schedule C, line C5,

column (c). (See Schedule C instructions).

### Column 3 - Arizona Source Income

#### Wholly Arizona partnerships -

Multiply column 1 by column 2 and enter the result in column 3.

**Multistate partnerships -** Attach a schedule that details (for each line item) the following computation:

1. The partner's distributive share of the partnership's income subject to apportionment multiplied by the average ratio in column 2.
2. The partner's distributive share of the partnership's income (or loss) which is specifically allocable to Arizona.
3. The total of the amounts computed in steps 1 and 2 that is to be entered in column 3.

**NOTE:** ARS §§ 43-1134 through 43-1138 specify the methods for allocating certain types of income to Arizona. Do not include the amount of any nonbusiness income which is allocable to another state in the total to be entered in column 3.

**All partnerships -** Column 3 is the partner's Arizona source income from the partnership. Partners should refer to the Schedule K-1 instructions for information on completing their Arizona returns.

## Information on the Filing of Composite Returns on Arizona Form 140NR

Arizona law requires an individual resident or nonresident to file his or her own income tax return. The Arizona Department of Revenue will accept a composite return on Arizona Form 140NR for qualifying nonresident individual partners of a partnership. However, a composite return cannot be filed with fewer than ten participating members. Refer to Arizona Individual Income Tax Ruling ITR 93-14 for information regarding the requirements for filing a composite return on Arizona Form 140NR. Call one of the Taxpayer Information and Assistance numbers listed on page 1 of the instructions to obtain a copy of the tax ruling.